BRITISH COLUMBIA

BC STATS

Service BC
Ministry of Labour & Citizens' Services

Infoline

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- **BC's inflation rate relatively flat in January**
- **Visitor entries rise in December, but slip 5.2% in 2006**
- **Retail sales advance in December, contributing to 6.5% increase during 2006**

Prices

- **British Columbia's year-over-year inflation rate remained steady (+2.2%) in January, as the all-items Consumer Price Index (CPI) was relatively unchanged from December (+2.1%).** Consumers paid 4.0% more for energy, as prices at the pump (+6.4%) and the cost of fuel oil (+9.5%) were substantially higher. However, piped gas (-8.2%) cost notably less than in January of last year. Despite the overall increase, energy was less of a contributing factor than it has been in previous months. Excluding energy products, BC's inflation rate would have been just slightly lower (+2.0%).

  Transportation costs rose 2.7%, reflecting jumps in the cost of both public (+2.8%) and private (+2.7%) transportation relative to January 2006. British Columbians faced moderately higher prices for most types of goods and services. Shelter costs were up 2.3% as homeowners paid 2.9% more for their accommodation, and renters faced an increase of 0.7%. The cost of operating and furnishing a home increased a modest 0.9%, while household equipment prices were down (-4.3%). Consumers paid more for food (+2.5%), clothing (+4.7%) and health & personal care (+2.1%). Education cost 2.1% more than in January of 2006 and students faced a 1.9% increase in tuition fees.

  In Vancouver, the inflation rate was 2.6%, fuelled by rising shelter costs (+3.6%), while Victoria residents faced more moderate increases (+1.7%) in the cost of goods and services.

  Data Source: Statistics Canada

- **Nationally, energy (-5.6%) and transportation (-1.2%) tempered other price increases in January, as the overall inflation rate edged down to 1.2%.** However, Canadian consumers paid more for shelter (+2.8%) and food (+2.4%). The western provinces continued to see the biggest price increases. Alberta's inflation rate (+3.9%) was more than three times the national average. BC had the second highest rate in the country while other provinces such as Ontario (+0.3%) and Quebec (+0.6%) saw the consumer price index increase at a much slower pace.

  Data Source: Statistics Canada

The Economy

- **Sales by retailers in the province ended the year on a high note, advancing 2.4% (*seasonally adjusted*) in December.** Despite December's increase, retail sales in BC have been growing at a slower pace in recent months. The severe wind and snow storms that hit the province in late November may have contributed to the slowdown. Retailers in every province fared well during the Christmas season. Nationally, retail sales were up 2.3% on the strength of solid gains in Ontario (+2.9%), Quebec (+1.8%), Alberta (+2.0%) and parts of Atlantic Canada.

  Data Source: Statistics Canada

- **Wholesale sales in the province were off again in December, inching down 0.3% (*seasonally adjusted*).** Canadian sales were stronger (+2.7%) with five provinces recording increases in wholesaling activities. Continued resurgence in the automotive sector significantly boosted Ontario's wholesales (+5.3%).

  Data Source: Statistics Canada

- **The number of travellers entering Canada via BC borders climbed 2.4% (*seasonally adjusted*) in December after declining for three consecutive months.** Entries from the US, which comprise most of the visits, were up 2.7%, as Americans made more same-day (+8.8%) trips into BC. Travel to BC from overseas countries also increased (+1.6%) in December with more entries from Asia (+2.9%) and Oceania (+4.6%).

  Data Source: Statistics Canada

Report Is Appreciating Loonie Hurting Visitor Entries?

Did you know...
Two thirds (65%) of Canadians plan on tuning into the Academy Awards on February 25th. Most (58%) are interested in who takes home the awards, while 28% are more concerned with the fashion. *Source: Ipsos Reid*

Aquaculture

- **In 2005, BC's seafood harvest from commercial fisheries and aquaculture facilities dropped to 333,700 tonnes (-2.0% from 2004).** At the same time, both the landed (+10.0% to 700 million tonnes) and wholesale (+7.0% to $1.2 billion) values were up substantially. Export value was also on the rise in 2005 as seafood products shipped to 72 different countries generated a total export value of $995 million, up from $984 million in 2004.

  The total wild salmon harvest for 2005 (26,300 tonnes) was up slightly from 2004 levels. While harvesting of sockeye salmon declined by nearly 80% due to conservation concerns, the harvest of pink salmon was more than three times larger than in 2004. Meanwhile, farmed salmon production increased to 70,600 tonnes (+14.0%). The wholesale value of the province's captured wild salmon slipped (-3.2%) to an estimated $212 million in 2005, while the value of farmed salmon jumped (+29.1%) to over $371 million. *Data Source: BC Ministry of Environment*

2006 in Review

- **During 2006, the value of wholesale sales in BC rose 7.2% as wholesalers marked a fifth straight year of solid growth.** The increase was above the national average (+6.5%), but well below the double-digit gains seen in Alberta (+13.0%). *Data Source: Statistics Canada*

- **Retailers in the province increased their sales 6.5% in 2006, the largest annual increase in over a decade.** Most retail industries posted significant gains. Pharmacies (+8.2%), clothing (+8.3%) and furniture (+6.7%) retailers saw sales rise more than five percent. The recent construction boom pushed sales at home centres and hardware stores up 22.5%, marking the fifth consecutive year of double digit increases. High prices at the pump helped boost gas station sales (+7.6%), albeit at a much slower pace than in 2005 (+16.7%). Canadian retail sales were up 6.4% last year. *Data Source: Statistics Canada*

- **A long-run downward trend in visitor entries resumed in 2006, as the number of visitors declined for the fifth time since the turn of the century.** After rebounding (+1.5%) in 2004, the number of travellers entering Canada via BC border crossings dropped 5.2% to about 6.8 million in 2006, the lowest number of visitor entries to BC since 1995. Accounting for more than 80% of the total visitor entries through the province, entries from the US have been declining since 2001, and continued to slump (-6.5%) in 2006 with same-day entries dropping 13.1% and overnight travel falling 2.0%.

  Travel to BC from overseas markets fell slightly (-0.5%) in 2006. As the major overseas market for BC, visits from Asia were down 0.9% in 2006 after increasing in 2005 (+1.1%). European visits inched down (-0.2%) last year. BC also welcomed fewer (-1.5%) visitors from Oceania (Australia, New Zealand, and other parts of South Pacific). *Data Source: Statistics Canada*

- **Canadian railways carried a slightly lighter cargo load (-0.5%) in 2006 than in record-breaking 2005, partly the result of a reduction in loadings related to the wood & paper industry.** Despite the slip, pressing demand for primary goods from China and other Asian countries kept business strong for railway carriers as more than 287.0 million metric tonnes of freight were loaded last year. *Data Source: Statistics Canada*

- **Canadian corporations earned record profits in 2006 ($231.7 billion), fuelled by solid growth in the wholesale, retail and construction industries.** Overall, operating profits were up 7.3% from 2005, rising for the fifth year in a row. Boasting an annual increase of more than 40%, the construction industry accounted for a significant proportion of the overall profit gain in non-financial industries (+6.6%). Metal mining companies benefited from rising commodity prices driven by strong North American and Asian demand. However, manufacturers did not fare as well as returns on export sales were dampened by the appreciation of the Canadian dollar. In the financial services sector, profits increased 9.3% last year. *Data Source: Statistics Canada*

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For data originating from Statistics Canada, data sourced to 'Statistics Canada' has been retrieved from CANSIM, the agency's electronic database; otherwise the source is identified as 'SC' plus the catalogue number.

Infoline Report

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Contact: Ocean Lu (250) 387-1124
Originally published in *Tourism Sector Monitor* Issue 06-12. Annual subscription $60 +GST

Is the Appreciating Canadian Dollar Hurting Visitor Entries?

In recent years, the Canadian dollar has been up in value over the Japanese Yen and the US dollar, and relatively flat to the UK Pound. The recent strength of Canada's currency, the "loonie", can be mostly credited to the persistently strong Canadian economy and high price of commodities, especially oil and natural gas. The appreciation of the Canadian dollar has taken a toll on the wallets of many international visitors coming to BC; there were fewer visitors from Japan and the US. Although visits from the UK maintained its growth, the overall trend in entries from the UK is relatively flat.

This paper examines the impact of the appreciation of Canadian dollars on visitor entries from three major countries, Japan, the UK, and the US, which account for the largest share of entries from Asia, North America and Europe respectively.

Fewer visitors from Japan coming to BC

Asia is an important and growing tourism market for BC. In November 2006, BC STATS took a close look at the declining visitor entries from Japan. By 2005, one in two overseas visitors to BC came from Asia, while Asian entries only accounted for roughly a third of total overseas entries in 1980.

Until the mid-1990s, Japan was the major source of visitors and the reason for the rapid growth in Asian entries. Travellers from Japan made up about half of all Asian entries. However, entries from Japan now comprise about 30% of all Asian entries. This was a combined result of the bursting of the Japanese economic "bubble" during the Asian financial crisis of 1997-1998 and also many subsequent events – 9/11, the SARS outbreak, the Iraq War, weak economies in Japan and abroad, and ongoing problems in the airline industry. In addition, the soaring value of the Canadian dollar relative to the Japanese Yen has made travel to BC more expensive, contributing to the downward trend in entries from Japan.

Visitor entries from Japan has been on a downward trend since 1996

Data Source: Statistics Canada & BC STATS

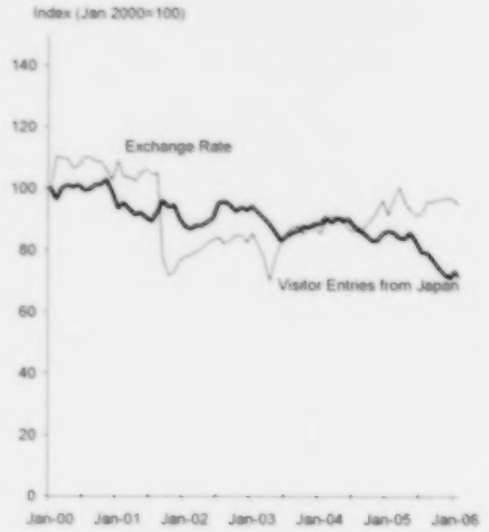
BC welcomed more than 243,400 visitors from Japan in 2005. This was 28.8% lower than in 1996, when visits from Japan peaked. The downward trend in visitor entries from Japan to BC started in 1997 (-7.2%), when the Asian "flu" severely hit the Japanese economy. One of the symptoms of the Asian "flu" was the depreciation of the Japanese Yen. Asian countries usually run a trade deficit with Japan because of the enormous size of its economy relative to the rest of Asia. The Japanese Yen fell in value as mass selling of the currency began in Asia, but Japan owned the world's largest currency reserve at the time, so it was easy for Japan to re-

cover. However, it was hard for the Japanese economy to compete with South Korea's devalued currency, and China's steady gains in the international trading markets.

The Canadian economy, on the other hand, survived through many economic stumbling blocks and a great deal of political turbulence around the world in the last decade, and sustained its steady growth. Between 1997 and 2005, Canadian GDP advanced 30.1% (Chained 1997 dollars)[1]. The growing economy also boosted the volume of trade, international investment and consumption, and which in turn, contributed largely to the increasing value of the Canadian dollar.

The value of the Canadian dollar has been steadily appreciating since 2001. The average annual Canadian dollar to the Japanese Yen exchange rate dropped 20.3% to 0.011 (CDN$/¥) between 2000 and 2005, reaching the lowest average annual level since 1993. During that same period, visitor entries from Japan also slumped (-5.4%). This depreciation of the Yen means that travellers from Japan saw the relative price of transportation, accommodation, meals, and other expenses increase, making BC less attractive as a destination.

Exchange rate vs. Entries from Japan



Data Source: Statistics Canada & BC STATS

The appreciation of the Canadian dollar against Japanese Yen surely cannot fully explain the declines in entries from Japan to BC. However, it certainly played a role in the decrease in tourism spending by travellers from Japan. A recent study[2] by the Canadian Tourism Commission (CTC) indicates that a large percentage of Japanese are engaging in typically urban activities while in Canada. Shopping, fine dining, and taking in culture or historical sites are all activities that more than 20% of Japanese travellers report having done while in the country. The study also shows that per person per trip expenditures in 2005 had decreased significantly from 2000 levels. Although this change is not unique to travel to Canada, it is slightly more pronounced given the appreciation of the Canadian dollar relative to the Yen and the subsequent loss in Japanese spending power on those tourism goods and services.

[1] Statistics Canada, Cansim Table 379-0017

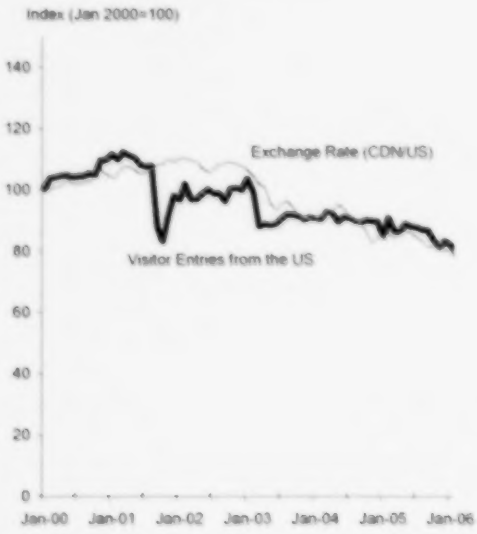
[2] Canadian Tourism Commission: 2005 Japanese Travel Consumer Study – An Analysis of Travel Trends and Canada's Competitive Market Position Executive Summary

Americans' wallets became lighter

Visitor entries from the US to BC account for about 80% of the total foreign visits to BC. The exchange rate between the US and Canadian dollar is an, if not the most, important factor for entries from the US. In October 2003 and July 2005, BC STATS evaluated the impact of the US dollar to Canadian dollar exchange rate (CDN$/US$) movements on visitor entries from the US. The conclusion from both studies shows that variations in the value of the US dollar have positive impacts on the number of both same-day and overnight trips by Americans to BC.

During the period from January 2002 to September 2006 when the value of the US dollar dropped 30.0% (from 1.60 to 1.12 CDN$/US$), the number of same-day US visitors coming to BC slumped 22.9%, and the number of overnight travellers dropped 8.6%.

Exchange rate vs. US entries



Data Source: Statistics Canada

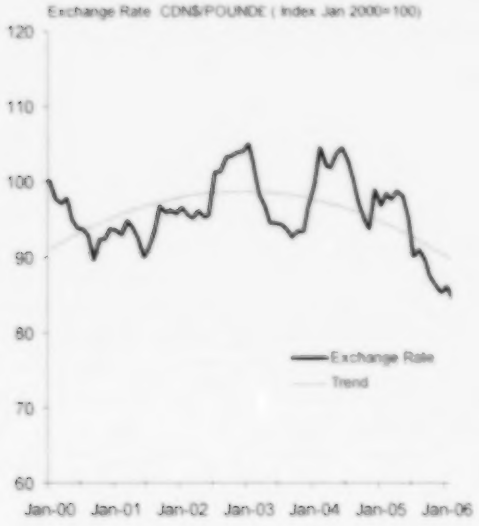
Of course, many crucial factors contributed to this movement. Events like 9/11, the SARS outbreak, and the subsequent Iraq war seem to have left enduring marks on visitor entries from the US. These incidents were great shocks, however, they are not the only reasons for the drop in US travel to BC. Soaring gasoline prices have pushed up the cost of travelling so much that trips from the US by automobile, which compromised more than 60% of the total visitor entries from the US, slumped 27% between 2000 and 2005. As a result of the joint impact of the soaring gasoline prices and the appreciating Canadian dollar, air travel prices have also increased, taking an even greater toll on travelling costs for American visitors. As a result, total visitor entries from the US experienced a significant drop of 17.9% between 2000 and 2005.

Relatively flat exchange rate between the Canadian dollar and the British Pound

The United Kingdom (UK) has been a very important overseas market for BC's tourism industry. Over 16% of overseas visitors are from the UK. Entries from the UK are the biggest source of visitors from Europe—one in two European visitors coming to BC is British.

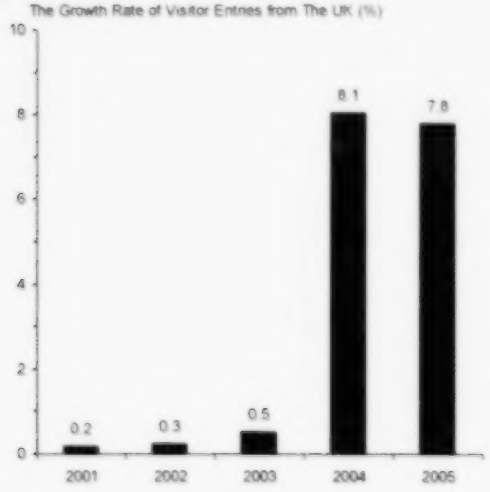
The exchange rate between the British Pound and Canadian dollar has been relatively flat compared with the American greenback and the Japanese Yen. However, the Canadian dollar has been appreciating over the British Pound since 2000. The Canadian dollar increased 2.5% in value on average between 2000 and 2005 (CDN$/ £). The average annual Canadian dollar to the British Pound exchange rate dropped 7.5% to 2.21 (CDN$/£) in 2005, reaching the lowest level since 1997.

The exchange rate between the Canadian dollar and UK Pound has been relatively flat, but still decreasing



Data Source: Statistics Canada

Visitor entries from the UK continued an upward trend since 2000



Data Source: Statistics Canada

The depreciation of the British Pound to the Canadian dollar did not seem to have much of an effect on visitor entries from the UK. Visits from the UK have been consecutively growing since 2000. Nearly 240,000 British visitors entered directly via BC, 7.8% more than in the previous year.

The United Kingdom is in its longest economic expansion since World War II, with levels of growth averaging about 2.8 percent over the past decade. The country still faces uncertainty similar to other industrialized nations of the world, but is the best performing country in Europe. According to the British Chambers of Commerce, British economic performance has been "very satisfactory in recent years - with good growth, low inflation and strong job creation." Entries from the UK via BC certainly benefited from the strong British economy and the resulting increasing spending power of visitors from the UK.

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BC at a glance . . .

POPULATION (thousands)	Oct 1/06	% change on one year ago
BC	4,327.4	1.2
Canada	32,730.2	1.0
GDP and INCOME (Revised Nov 8)		
(BC - at market prices)	2005	% change on one year ago
Gross Domestic Product (GDP) *($ millions)*	168,855	7.2
GDP *($ 1997 millions)*	145,501	3.7
GDP *($ 1997 per Capita)*	34,173	2.4
Personal Disposable Income *($ 1997 per Capita)*	20,983	2.4
TRADE ($ millions, seasonally adjusted)		% change on prev. month
Manufacturing Shipments - Dec	3,527	2.1
Merchandise Exports - Dec	2,739	5.6
Retail Sales - Dec	4,486	2.4
CONSUMER PRICE INDEX	% change on one year ago	12-month avg % change
(all items - Jan 2007)		
BC	2.2	1.8
Vancouver	2.6	2.0
Victoria	1.7	1.5
Canada	1.2	1.9
LABOUR FORCE (thousands)	Jan '07	% change on prev. month
(seasonally adjusted)		
Labour Force - BC	2,352	0.5
Employed - BC	2,250	1.4
Unemployed - BC	102	-16.7
		Dec '06
Unemployment Rate - BC *(percent)*	4.3	5.2
Unemployment Rate - Canada *(percent)*	6.2	6.1
INTEREST RATES (percent)	Feb 21/07	Feb 22/06
Prime Business Rate	6.00	5.25
Conventional Mortgages - 1 year	6.50	5.85
- 5 year	6.65	6.45
US/CANADA EXCHANGE RATE	Feb 21/07	Feb 22/06
(avg. noon spot rate) Cdn $	1.1612	1.1482
US $ *(reciprocal of the closing rate)*	0.8619	0.8705
AVERAGE WEEKLY WAGE RATE	Jan '07	% change on one year ago
(industrial aggregate - dollars)		
BC	743.37	3.2
Canada	732.40	1.9

SOURCES:

Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada

Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics

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www12.statcan.ca/english/census06/geo/index.cfm

Guide to the BC Economy & Labour Market

In response to requests from users of the interactive web site, the *Guide* is now also available in PDF format.

www.bcstats.gov.bc.ca/pubs/econ_gui.asp

Released this week by BC STATS

- Consumer Price Index, January 2007

Next week

- Business Indicators, February 2007
- Current Statistics, February 2007
- Tourism Sector Monitor, February 2007

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